

# INTERNAL AUDITING IN THE UNITED STATES NAVY — A SEARCH FOR IMPROVEMENTS

DICK H. FRANCISCO

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Dick H. Francisco

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by  
Dick H. Francisco  
//  
Lieutenant Commander, Supply Corps, United States Navy

Submitted in partial fulfillment of  
the requirements for the degree of

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IN

MANAGEMENT

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1964



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## ABSTRACT

Internal auditing has not attained the desired acceptance throughout the Naval Establishment. This lack of acceptance prevents the realization of the full potential of internal auditing in the United States Navy. Reasons for this lack of acceptance are suggested, and recommendations made, which if adopted, should help to create better acceptability for the function of internal audit.



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## INTRODUCTION

Internal auditing has not received the desired degree of acceptance throughout the Naval Establishment. This lack of acceptance of internal audit has been manifested by activities failing to comply with recommendations made in formal audit reports, and has resulted in increased attention on the part of the Secretary of Defense and the Secretary of the Navy. Study 7, Volume I of the Review of Management of the Department of the Navy states,<sup>1</sup> ". . . There appears to be no more controversial area in the Department currently than the Internal Audit Function. . . ."

This research paper was undertaken as an attempt to find ways of improving the United States Navy's internal audit program, and thus promote its acceptability. Current literature on the subject of internal auditing was reviewed to determine if practices and procedures being used by industry might be adopted for Navy use. In addition, 31 of the United States Navy's formal internal audit reports were critically reviewed in light of current reporting practices and procedures.

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<sup>1</sup>S. H. Ivison, Jr., CAPT, USN, "Financial Management Study," Review of Management of the Department of the Navy, Study 7, Volume I, (Washington: Department of the Navy, 1962), p.7.



## CHAPTER I

### A SURVEY OF NAVY INTERNAL AUDIT

#### History.

The establishment of internal audit, as such, in the United States Navy dates from the enactment of Title IV, Public Law 216, 81st Congress, on 10 August 1949. This Act, among other things, established the function of comptrollership in the Department of Defense and in the separate military departments. It also specifically charged the Comptroller of the Department of Defense (subject to the authority, direction and control of the Secretary of Defense) with responsibility for establishing and supervising a system of internal audit within the Department of Defense. The Secretaries of the military departments were in turn charged with the responsibility of ensuring that a system of internal audit was established and supervised in their respective departments. Such a system was to be consistent with the operations of the Office of the Comptroller of the Department of Defense.<sup>2</sup>

The Budget and Accounting Procedures Act of 1950 gave additional authority for establishing the function of internal audit in the United States Navy. The Act required the

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<sup>2</sup>See Appendix I for pertinent portions of Title IV, Public Law 216, 81st Congress.



head of each executive agency to establish and maintain accounting and internal control systems designed to provide effective control and accountability for all funds, property, and other assets for which responsible, "including appropriate internal audit."<sup>3</sup>

When the Office of the Comptroller of the Navy was established in 1950, internal audit was made the responsibility of the Assistant Comptroller, Accounting, Audit and Finance; but, contract audit remained a responsibility of the Bureau of Supplies and Accounts, until 1953 when the position of Assistant Comptroller, Audit was established and made responsible for both types of audit.<sup>4</sup> The Navy's internal audit program, however, didn't really get started until 1952, when the Secretary of the Navy, by letter of 5 May, established the Navy audit office program which had as its mission:<sup>5</sup>

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<sup>3</sup>United States Congress, "Budget and Accounting Procedures Act of 1950, Public Law 81-216." United States Statutes at Large, Volume 63. (Washington: Government Printing Office, 1950), p. 836.

<sup>4</sup>United States Navy, Financial Management in the Navy, (NAVPERS 10792-A), (Washington: Naval Training and Publications Center, 1962), p. 204.

<sup>5</sup>United States Navy, Navy Comptroller Briefs, (NAVEXOS P1360), October 1954, Volume I, No. 1, (Washington: Office of Comptroller of the Navy, 1954), p. 6.



. . . the task of determining through periodic surveys, examinations and audits, that policies and established procedures in the fields of budget, accounting, finance and statistical reporting are followed and that the interests of the government are adequately safeguarded

. . .

On 2 August 1954, the fourth U. S. Navy Audit Office was established at San Diego, California; the other three offices being located in New York, San Francisco, and Washington, D. C. Today there are ten such offices, now named U. S. Navy Area Audit Offices, located in Boston, New York, Philadelphia, Washington, Norfolk, Chicago, San Francisco, Los Angeles, San Diego, and London with branch offices at other centers of defense industry or naval activity.<sup>6</sup>

#### Internal Audit Defined.

The U. S. Navy defines internal audit as:<sup>7</sup>

. . . an independent appraisal activity within an organization for the review of accounting, financial, and other operations (except tactical operations) as a basis for service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls.

When internal audit was first inaugurated in the U. S.

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<sup>6</sup>United States Navy, Financial Management in the Navy, (NAVPERS 10792-A), (Washington: Naval Training and Publications Center, 1962), p. 204.

<sup>7</sup>Navy Comptroller Manual, (Washington: Navy Department, 1962), Volume I, paragraph 014100-1a.



Navy, it was primarily a policing action - that is, the auditors' primary duties were to determine if "policies and established procedures in the fields of budget, accounting, finance and statistical reporting" were being followed. Today, internal audit not only checks to see that established policies and procedures in the fields of budget, accounting, finance and statistical reporting are being complied with, but it has also been assigned the following specific functions:<sup>8</sup>

- a. determines if internal controls are functioning properly by providing adequate, but not excessive, safeguards for public funds and protection of Government interests;
- b. appraises the adequacy, effectiveness, and accuracy of policies, procedures, and records, and determines if reports are timely, accurate and fully disclose the nature of operations; and
- c. analyzes and evaluates other than tactical operations, and makes recommendations toward increased efficiency and economy.

#### Types of Audits.

The Comptroller of the Navy discharges his responsibility for the internal audit function through the Auditor

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<sup>8</sup>Ibid., paragraph 014100-1b.



General of the Navy, the Navy area audit office organization and through the conduct of various types of audits. To assist the auditors and to ensure adequate coverage, the Navy Comptroller has developed internal audit programs which the auditors must use. Internal audit programs have been prepared for each of the following functions and activities: Procurement; Stores Accounting; Inventory Management; Supply Management; Appropriation and Fund Accounting; Budgeting for Appropriated Funds; Cost Accounting; Time-keeping and Civilian Payrolls; Disbursing; Plant Property Accounting; Automatic Data Processing; Navy Industrial Fund Accounting; Commissary (General Mess); Cost Accounting for Operation and Maintenance of Family Housing; Navy Rental Housing; Navy Regional Finance Offices; Commissary Stores; Government Property in the Possession of Contractors; and, Audit of Small Activities. These programs are not meant to be restrictive, and the auditor must use his initiative and judgment regarding the relative effort expended on the various phases and areas of the audit.

The various types of internal audits conducted by the Navy area audit offices are as follows:<sup>9</sup>

- a. Comprehensive internal audit - encompasses all

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<sup>9</sup> Ibid., paragraphs 014100-3-12.



functional areas<sup>10</sup> performed at the audited activity.

b. Periodic internal audit - is a comprehensive internal audit performed periodically.

c. Continuous internal audit - is a comprehensive internal audit performed continuously by a resident audit staff assigned by and under the administrative control of the appropriate Navy area audit office.

d. Disbursing audit - is a limited (as opposed to a comprehensive) audit of a disbursing office.

e. Housing audit - is a limited audit of Naval rental housing facilities.

f. Special audit - is one authorized by the Auditor General of the Navy for a special purpose.

g. Assist audit - is an audit conducted on behalf of another Navy area audit office or on behalf of the audit agency of another military department.

h. Integrated audit - a review and evaluation of a program or function at all organizational levels on either a Navy-wide basis or on a regional basis.

i. Military Assistance Program audit - a review and appraisal of functions and operations pertaining to the

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<sup>10</sup>A functional area comprises all phases of the operations which are directly related to the same basic function and can be audited as an entity through the various organizational units in which they appear. Basic functions are listed on page 6.



Military Assistance Program.

j. Limited commissary store audit - an evaluation of the control and protection of Government funds and property at commissary stores.

Recent Innovations.

In 1963 the Auditor General of the Navy instituted what is known as the "audit utilization program." This program was applied to the U. S. Navy's first Navy-wide integrated audit which pertained to the Navy's repairable aeronautical material program. Management representatives from the Bureau of Supplies and Accounts, the Aviation Supply Office, and the Bureau of Naval Weapons first met with the representatives from the Office of the Auditor General to review the findings of the audit and to assure complete understanding. Then the management representatives established targets for improving the unsatisfactory conditions disclosed by the audit. Five months later, in October, the representatives again met to review the progress and establish revised target dates where necessary. In February, 1964 the representatives again met to review actions taken since the October meeting. This "follow-up review illustrates how audit utilization helps management derive the maximum benefit from the results of a particular



audit."<sup>11</sup>

The Auditor General of the Navy has also instituted an after-the-fact review and analysis of all audit reports published during a specified time period. This procedure is known as "audit summarization" and is performed to identify existing and potential problem areas; to detect patterns, trends and their causes; to determine if the problems are increasing or decreasing in scope; and to determine how widespread the problems may be. The problems are grouped into seven broad subject areas which correspond to the interests of the Navy Secretariat as follows:<sup>12</sup>

1. Part A - General Information - contains information which is of common interest to the Secretary of the Navy, the Under Secretary, and the Assistant Secretaries. It contains a brief summary of the problem areas discussed elsewhere in the report; a statistical summary of audits made; and a listing of problems which may be potentially significant, but whose parameters have not yet been determined; and new concepts and audit improvements which have been or will be put into effect in the immediate future.

2. Part B - Fleet Readiness and General Effectiveness of the Shore Establishment - contains information which is

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<sup>11</sup>United States Navy, Navy Comptroller Briefs (NAVEXOS P1360), March 1964, Volume XI, No. 1 (Washington: Office of Comptroller of the Navy, 1964), p. 5.

<sup>12</sup>Ibid., pp. 5-7.



of primary interest to the Secretary of the Navy, the Chief of Naval Operations, the Chief of Naval Material, and the Commandant of the Marine Corps, and relates audit findings to the general effectiveness of the Shore Establishment in support of the Fleet.

3. Part C - Manpower - is of primary interest to the Under Secretary of the Navy. It contains audit findings that relate the quantitative and qualitative aspects of manpower utilization and productivity.

4. Part D - Research and Development - contains information which is the primary responsibility of the Assistant Secretary of the Navy (Research and Development).

5. Parts E and F - Installations and Material Management - contain information which is of primary interest to the Assistant Secretary of the Navy (Installations and Logistics).

6. Part G - Financial Management - contains audit findings which are the primary concern of the Assistant Secretary of the Navy (Financial Management).

Copies of the Audit Summary will be distributed not only to members of the Secretariat, but also to the Chief of Naval Operations, the Commandant of the Marine Corps, the Chief of Naval Material, bureau and office chiefs, and other officials, as appropriate. Thus, Navy managers will be able to review the problem areas existing at activities



under their management and/or technical control to determine if the problems resulted from inadequacies or ambiguities in existing instructions, and if necessary take action to preclude similar problems from developing at other activities. The Audit Summary will thus increase the effectiveness of an audit report by extending its life span and the area of its impact.

#### The Future.

Internal audit in the Navy has made much progress since first initiated; but, there still remains much to do. Top Department of Defense and Navy Department managers expect, and are demanding more and more from internal auditing. As top management puts additional reliance on internal auditing as a managerial control, the area encompassed by internal audit will expand. The definition of internal auditing as adopted by the Navy excludes only "tactical operations" from its scrutiny. The expanded scope granted internal audit should be recognized for what it is - management's cry for help! How can internal audit answer that cry? What more can be done? This paper is an attempt to answer those questions.



## CHAPTER II

### THE NEED FOR CHANGE

#### Expressed by the Department of Defense.

The Deputy Secretary of Defense, in his memorandum of 8 August 1961 to the Secretaries of the Armed Services, said that internal auditing and other managerial controls should be strengthened and broadened. He did not say how, or in what areas internal auditing should be broadened. He did say, however, that audit "efforts are to be directed toward the professional approach to management problems," that the audit function was expected to be a guide to progress; and that it should provide a foundation on which better record keeping, management reporting, and efficient operations could be achieved. The Secretary of the Navy endorsed the views and philosophy set forth in the memorandum by issuing SECNAV Instruction 7500.5 of 16 September 1961.<sup>13</sup>

#### Expressed by the "Dillon Report".

In spite of the continuing interest of the Secretary of Defense and the Secretary of the Navy in internal auditing as a service to management, the Review of Management of the Department of the Navy (known unofficially as the Dillon

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<sup>13</sup> See Appendix II for copy of SECNAV Instruction 7500.5 of 16 September 1961.



Report) published in 1962, indicated that internal audit still lacked the desired acceptance. Some of the criticisms leveled at internal audit included:

- (1) it interferes with the orderly conduct of programs;
- (2) reduces management effectiveness;
- (3) makes recommendations that conflict with policy;
- (4) the effort to implement recommendations could be better utilized in performing the mission of the activity;
- (5) duplicates the responsibilities of the management bureau or the Navy Inspector General;
- (6) auditors often operate outside their field of competency;
- (7) adds to the already excessive number of reviews of naval shore activities; and
- (8) the elapsed time between completion of the audit and publication of the formal report is excessive.

The Dillon Report recognized that some of the above criticisms came from a lack of understanding of the purpose of internal audit, and recommended that the Comptroller of the Navy change some reporting procedures and commence an educational program to present audit in its proper perspective to promote its acceptance in the Navy. To overcome the other criticisms, the Dillon Report also recommended:

- (1) that management engineers and analysts be utilized in the conduct of audits, or on a consulting basis, to



ensure qualified recommendations in certain management areas;

(2) that the responsibilities of the Navy Inspector General and Internal Audit be redefined and clarified;

(3) that Navy Inspector General surveys be reduced to an 18 - 24 month cycle;

(4) that the Bureaus' Inspector General surveys be discontinued; and

(5) that the present internal audit system, which is established by law, be continued.

Disclosed by a Review of 31 Internal Audit Reports.

Review of 31 internal audit reports for 1961 and 1963 also disclosed the need for change in internal audit procedures. Out of a total of 330 recommendations, approximately 250 required compliance with specific regulations. For example:

NAVSHPYD ENSURE THAT COGNIZANCE SYMBOL N ITEMS WHICH REQUIRE MANDATORY TURN-IN OF REPLACED ITEMS ARE NOT ISSUED WITHOUT CERTIFICATION OF THE REQUISITION, AS PROVIDED FOR BY ESO INSTRUCTION 4440.38E.

The wording of these recommendations appear to put the auditor in a line position instead of a staff position, thus creating resentment on the part of the individual whose work is being audited. It is suggested that when an audit discloses that an activity has not complied with a specific instruction or regulation, the mere reporting of the non-compliance should be sufficient to prompt management to take



corrective action.

The review of internal audit reports also disclosed the reporting of noncompliance with directives, when corrective action had been taken by the activity prior to the auditors' departure. Inasmuch as the purpose of internal audit is not to inflate the auditor's prestige, and not to castigate, but to help all levels of management, the value of such items in a formal report appears to be doubtful. Instead of helping the activity, the auditor has put the Commanding Officer on report, not only to his immediate superior, but to everyone who receives a copy of the audit report.

If the auditor is to help local management, the findings and recommendations should not be reported at a higher level of management than is required for corrective action. The Navy has recognized this principle of reporting by stating that:<sup>14</sup>

Formal reports of periodic and continuous internal audits will contain only the following types of findings:

1. those requiring action by the management bureaus and offices or other higher authority.
2. those meriting the attention of the management bureaus and offices or other authority.

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<sup>14</sup>Navy Comptroller Manual, (Washington: Navy Department, 1962), Volume I, paragraph 014252-1(a)3.



However, the review of internal audit reports disclosed that findings and recommendations were sometimes included which were of a trivial nature, and did not seem to merit the attention of higher authority.<sup>15</sup> Compliance with the intent and spirit of the above reference would be one of the best ways to convince operating management, that the auditor is really there to "help" instead of to find as many discrepancies as possible.

The Secretary of the Department of Defense, and the Secretary of the Navy have indicated that internal audit is expected to play a more important role in the management function than heretofore. If internal audit is to fulfill the hopes and aspirations of top management, changes in the approach to internal auditing as well as changes in present internal auditing practices and procedures are necessary.

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<sup>15</sup>See Appendix III for examples.



## CHAPTER III

### THE MANAGEMENT AUDIT

#### A New Approach.

The Deputy Secretary of Defense, in his memorandum of 8 August 1961 to the Secretaries of the Armed Services, stated:<sup>16</sup>

. . . It is necessary for each military department to examine its managerial and command philosophies and practices, together with disciplines, controls and other measures used to administer them.

The Navy has, to a great degree, relied on the functional approach used by internal auditing to evaluate managerial controls and practices. This approach readily lends itself to determining if instructions and procedures are being followed, but doesn't lead the auditor to question the system or the underlying logic.

Some auditors have, however, questioned the system, and made recommendations outside the "financial area." This has, as the Dillon Report states, led to auditors being accused "of making audit recommendations on subjects beyond their professional competency."<sup>17</sup> The Dillon Report recognizing that proper qualifications were required to access

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<sup>16</sup>See Appendix IV for copy of the Deputy Secretary of Defense's memorandum of 8 August 1961.

<sup>17</sup>S. H. Ivison, Jr., CAPT, USN, "Financial Management Study," Review of Management of the Department of the Navy, Study 7, Volume I, (Washington: Department of the Navy, 1962), p. 8.



facts and findings and draw responsive conclusions and recommendations, recommended that:<sup>18</sup>

. . . internal audit teams be augmented with management engineering or industrial engineering consultation to assist in the appraisal of problems revealed in certain areas, not to solve problems but to be able better to formulate responsive conclusions and recommendations.

This recommendation led to a review of the book The Management Audit, by W. P. Leonard.

In his book, Leonard sets forth principles and procedures that could be adopted by the Navy's internal audit organization to strengthen and broaden its function. His approach to the management audit is that of the management engineer and/or the systems analyst, and as such, should be given serious consideration by every internal auditor. The remaining portion of this chapter is therefore given over to a review of the "management audit."

#### Management Audit Defined.

Leonard defines management audit as follows:<sup>19</sup>

. . . a comprehensive and constructive examination of an organization structure of a company, institution, or branch of government, or of any component thereof, such as a division or department, and its plans and objectives, its means of operation, and its use of human and physical facilities.

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<sup>18</sup>Ibid., pp. 8-9.

<sup>19</sup>William P. Leonard, The Management Audit, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1961), p. 35.



This broad definition does not carry with it, the limitations implied in the Navy's definition of internal auditing as shown in chapter one. However, the aim of the "management audit," is the same as for the "internal audit," that of assisting management to achieve the most efficient administration of operations. This involves the appraisal of:<sup>20</sup>

. . . the adequacy of the organizational structure, compliance with policies and procedures, accuracy and reliability of controls, adequate protective methods, cause for variances, proper utilization of manpower and equipment, and satisfactory methods of operation.

Studies are conducted throughout the organization to discover and correct problem areas wherever they may exist; but, especially to determine if problems exist due to "unsound performance, poor cooperation, internal friction between executives, and general lack of knowledge or disregard for good organization."<sup>21</sup> These areas have not, as a rule, been scrutinized by the Navy's internal auditors. It is suggested that additional audit emphasis in these areas may be very worth while.

#### Appraising the Organizational Structure.

When the management auditor appraises the adequacy of the organizational structure, minimal requirements should

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<sup>20</sup> Ibid.

<sup>21</sup> Ibid., pp. 35-36.



provide for checking the following items:<sup>22</sup>

- (1) Are basic responsibilities, authorities and relationships clearly delineated?
- (2) Does each department head have complete knowledge concerning his assigned responsibilities and accountability?
- (3) Is there duplication or overlapping of responsibilities?
- (4) Are supervisors and department heads qualified to perform the requirements of their positions?
- (5) Is their performance satisfactory?
- (6) What can be done to make performance more effective?
- (7) What assignments can be eliminated?

This type of an appraisal often discloses that the organizational structure is not designed to meet the needs of the activity; that functions are not coordinated, balanced and controlled; that proper delegation of authority and control is lacking; that unqualified personnel are in key positions, resulting in poor leadership and guidance of subordinates; that internal friction exists between department heads; and, that responsibility for quality of performance is often lacking.<sup>23</sup>

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<sup>22</sup> Ibid., p. 54.

<sup>23</sup> Ibid., pp. 50-51.



William M. Fox has stated that it is most important for an organization to undertake, at least periodically, a "comprehensive organization audit," which is very similar to what has been discussed in the previous paragraphs. However, Fox would add the following questions to the list previously given:<sup>24</sup>

- (1) Is the functionalization and departmentation in accordance with good organizational practices in the light of current objectives?
- (2) Has specialization been carried too far when job enlargement would be more appropriate?
- (3) Are the spans of control appropriate?
- (4) Do executives have time for planning and other managerial activities as opposed to the routine demands for their time?
- (5) Are decisions being made at the lowest feasible organizational level?
- (6) Do the budget-making procedures generate meaningful self-imposed standards?
- (7) Is the organizational climate conducive to personal growth?

Other questions could be added to the above list for the auditor's evaluation; however, enough examples have been

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<sup>24</sup>William M. Fox, The Management Process, (Homewood, Illinois: Richard D. Irwin, Inc., 1963), pp. 385-388.



given to point out that the management audit approach relies heavily on the knowledge, "management know-how," and analytical abilities of the individual auditor.

Appraisal of Policies and Practices.

Sound policies and practices are prerequisites to effective management, and therefore should be appraised by the auditor. Some items that would be checked by the management auditor include:<sup>25</sup>

- (1) Are current practices known and approved by top management? (They may have been created at a lower level in the organization without top management's knowledge or approval.)
- (2) Are management policies reduced to writing? (Misunderstanding, waste, friction and inefficient operations often result from the lack of definite, clear-cut written policies distributed to all concerned.)
- (3) Do the management policies have the respect of everyone? (Respect at the lower levels of the organization without respect at the higher levels does not promote effective management.)
- (4) Are policies enforced? (If not, it may indicate the lack of attention to the delegation of responsibilities within the organization. Responsibility for follow-up

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<sup>25</sup>Leonard, op. cit. pp. 55-57.



and enforcement could be delegated, but many executives fail to do so.)

(5) Do the policies reflect sound, logical thinking, and do they contribute a positive approach toward the objectives of the activity?

#### Appraisal of Systems and Procedures.

The best policies may be unsuccessful if not supported by good systems or adequate procedures. It is the purpose of systems and procedures to help management accomplish the activity's organizational objective by communicating requirements and assisting personnel to carry out the requirements. The appraisal of any system or procedure requires that the auditor determines: if the system is designed to bring about the desired results; if the function is properly located in the organizational structure; if staff personnel possess the training and experience to do the work; if a definite program exists, and if so, the action taken to accomplish it; and if production is satisfactory. The appraisal involves not only determining what is being done, but where, when, how and by whom. The auditor should also be constantly alert for ways to improve the system.<sup>26</sup>

The effectiveness of the system or procedure may be evaluated, to some degree, by checking on accuracy, orderly

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<sup>26</sup> Ibid., pp. 60-62.



paper flow and speed. Some additional items that the auditor should be concerned with are: the occurrence of bottlenecks and delays; errors in paper work (many or few); timely completion and submission of schedules and reports; relationship between volume of work and the number of employees doing the work; and how does it compare from month to month.<sup>27</sup>

#### Appraisal of Methods of Control.

Methods of control must be devised for each functional activity if management is to direct the course of the enterprise toward the desired goals and objectives. In evaluating methods of control, the management auditor should determine the answers to the following questions:

1. Is the plan of control sound and practical?
2. Is the desired objective indicated in the plan?
3. Do procedures specify "how, when and by whom the plan is to be executed?"
4. Does the plan provide for continuous measurements of accomplishment?

The appraisal may disclose that control is not effective because of lack of standards, inadequate supervision, or a breakdown in records and procedures. The auditor must then make a study of records and procedures, and make recommenda-

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<sup>27</sup>Ibid., p. 61.



tions for revisions.<sup>28</sup>

Means of Operation.

The management auditor must also give his attention to the means of operation. He should seek the answers to such questions as the following: How is the basic work force determined? What provisions have been made for increasing or decreasing personnel in line with the need? Does the planning for production, in an industrial activity, consider all the many facets, such as procurement of materials, standards, inspection, shipping, shop supplies, special tools, jigs, fixtures or equipment, and so on? (Coordination of these activities is essential.) What are the causes of peak and slack workloads, and can they be corrected? Is there a better method of distributing the workload? What are the causes of overtime and backlogs etc.?<sup>29</sup>

It should be evident by now, that the management audit delves into every function, area and phase of an activity's operations. To emphasize this, Leonard states:<sup>30</sup>

Business success is mainly gained by performing all operations effectively and by consistently striving for improvements . . . The big problem for the auditor is to determine whether or not the enterprise is operating as profitably as it should. His job is to study and analyze all the factors that pertain to the operations of the

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<sup>28</sup> Ibid., pp. 63-65.

<sup>29</sup> Ibid., pp. 65-68.

<sup>30</sup> Ibid., p. 66.



enterprise, including its profit and volume relationship, the products or services, the market, the organization, methods, facilities and finances.

Leonard is careful not to convey the idea that the management auditor's responsibility is to enforce operating policies and procedures. His recommendations are written as recommendations; whereas many "recommendations" in the Navy's internal audit reports are really directives rather than recommendations. Leonard states:<sup>31</sup>,

The management audit is an appraisal of management methods and performance, by those delegated by management, for the benefit of management. Top management is the final judge for the acceptance of a recommendation that will bring about improvement in management methods and performance.

#### Who Should Conduct the Management Audit?

The Institute of Internal Auditors has given much publicity to "The Management Audit" since it first appeared in Systems and Procedures.<sup>32</sup> The article was recommended to the readers of The Internal Auditor "not that we agree with it - but rather because we heartily disagree with quite a lot of it."<sup>33</sup> The Spring, 1962, issue of The Internal Auditor contains three articles which discuss who,

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<sup>31</sup>Ibid., p. 215.

<sup>32</sup>Victor Lazzaro, Systems and Procedures, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1959), pp. 93-125.

<sup>33</sup>The Institute of Internal Auditors, "Readings of Interest to Internal Auditors," The Internal Auditor, Volume 17, No. 3, (Fall, 1960), p. 82.



systems and procedures personnel or internal auditors, is best qualified to conduct the management audit. Lissenden, Vice President and Controller of Markel Service, Inc., approached this controversial question by looking at what he believes to be the basic requirements of training and experience to qualify a person to conduct a management audit. He states that these requirements are:<sup>34</sup>

1. A knowledge of work flow analyses:
  - (a) Office layout and design
  - (b) Work scheduling, and conversely
  - (c) Personnel scheduling
2. Familiarity with work measurement:
  - (a) Sampling techniques and flow charting
  - (b) Job analysis - is the right person doing the job?
3. Some knowledge of mechanical equipment:  
Characteristics of various types of equipment - is the right equipment being used?
4. Thorough knowledge of company organization and interrelationships.
5. Familiarity with company policies and procedures.
6. Last, but far from least - he must be accepted by the manager as not only independent and objective, but as friendly and objective.

Lissenden states that the experienced systems man has experience in his favor, such as analytical experience from reviewing procedures and methods; knowledge of the techniques of work measurement and work simplification; familiarity with

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<sup>34</sup>H. Jack Lissenden, "Management Audits: Systems and Procedures Personnel or Internal Auditors?" The Internal Auditor, Volume 19, No. 1, (Spring, 1962), pp. 58-59.



the uses of mechanical equipment in specific situations; and experience in scheduling office work and office layout. Other reasons advanced for the systems man being better qualified to perform the management audit were:<sup>35</sup>

First, an auditor's activities usually - or at least frequently - are confined to the accounting areas of business, whereas the systems man has usually been involved in all areas of operation and, therefore, may be more familiar with the interrelations than the auditor.

Second, from my many years of association with auditors, both independent and internal, I believe that they are generally more inclined to live with the conditions that exist - not to challenge company policy - whereas the systems man must challenge policy if he feels it is contrary to the best interest of the company. Because of this, the systems man will probably approach an evaluation of management with a more analytical viewpoint than an auditor. This could prove invaluable.

The article is concluded with the following comment:<sup>36</sup>

So, take this caution - NEVER LET AN UNQUALIFIED PERSON CONDUCT A MANAGEMENT AUDIT. WITHOUT AT LEAST A CASUAL KNOWLEDGE OF THE TECHNIQUES DESCRIBED, THE AUDITOR CANNOT DO A PROPER EVALUATION AND COULD CREATE CHAOS.

#### Summary.

Problems often exist in an organization which concern everyone, but are not the responsibility of anyone. These problems occur because it is almost impossible to segment an organization so all the organization's problems fall into

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<sup>35</sup> Ibid., p. 59.

<sup>36</sup> Ibid.



an organizational pigeonhole. The lack of action to correct these problems result because of divided responsibilities, difficulties in getting authorization for change, or the belief that procedures reflect the superior wisdom of top management.<sup>37</sup> The management audit is especially suited to finding and solving this type of problem, because it questions the logic underlying the policies and procedures; evaluates the soundness of plans and objectives; determines if the organization is set up to carry out the objectives effectively, etc. Internal audit, as practiced in the U. S. Navy, largely approaches the audit function by determining if official instructions and regulations are being followed. (These are usually referenced in the applicable Internal Audit Program.) Very rarely will a Navy auditor question the logic of a policy or procedure unless in the course of auditing he uncovers a condition which points to an inadequacy in the existing procedures.

The incorporation of some of the management audit techniques and procedures with the internal audit procedures now practiced by the Navy, should strengthen and broaden the function of internal auditing in the Navy. However, the service of qualified personnel must be obtained. The addition of management engineers and systems analysts to the

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<sup>37</sup> William Travers Jerome III, Executive Control - The Catalyst, (New York: John Wiley and Sons, Inc., 1961), pp. 174-175.



staff of Navy area audit offices would provide professional services to management which are not now available, except in isolated instances. This action would help alleviate the cries of incompetence voiced in the Dillon Report.



## CHAPTER IV

### SELLING INTERNAL AUDIT

#### The Auditor's Job.

The Dillon Report states that the indifference or lack of acceptance of internal audit in the United States Navy is because there is a lack of understanding of the purpose of internal audit. The Dillon Report, accordingly, recommended that the Navy Comptroller initiate an educational program, aimed at top management personnel in the bureaus and offices, that would picture audit in its proper perspective, and thus promote its acceptability throughout the Navy.

This approach to the problem appears to be on the wrong level. The managing director of the Institute of Internal Auditors, Bradford Cadmus, has written:<sup>38</sup>

If we have done a good job in selling modern internal auditing to operating department heads - then the sale to management is easy. If we haven't sold operating heads - if most of them are luke-warm or antagonistic, then these sentiments will carry on to higher levels and we will find indifference from management and passive resistance in the department.

Present operating department heads will soon be the "top management" personnel in the bureaus and offices in the Navy Department. They will base their opinion of internal audit

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<sup>38</sup>Bradford Cadmus, "Selling Modern Internal Auditing," The Internal Auditor, Volume 18, No. 4, (Winter, 1961), p. 62.



on the one or two contacts they will have with internal auditors before being ordered to Washington. It seems obvious, therefore, that the education must be aimed at the operating level; not at the department heads who are being audited, but at the one doing the auditing - the auditor. The auditor is the one who must sell internal audit to the department heads. If the auditor does a good job, the department heads will be convinced that the objective of internal auditing is really "to assist all members of management in the effective discharge of their responsibilities."<sup>39</sup> If the auditor fails, the department head will be another voice that says to the auditor "Your actions speak so loudly I can't hear what you say."

#### Good Human Relations.

If internal auditing is to be accepted by those being audited, the auditor must possess those personal qualities that elicit confidence and cooperation. He must be professionally competent, objective and fair. He must know his own limitations and not attempt to evaluate matters that he is not competent to judge. He should not be arrogant, demanding or overbearing.<sup>40</sup>

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<sup>39</sup>National Industrial Conference Board, "Statement of Responsibilities of the Internal Auditor" Studies in Business Policy, No. 111, Internal Auditing, (New York, New York: National Industrial Conference Board, 1963), p. 7.

<sup>40</sup>Ibid., pp. 70-71.



In addition, the internal auditor must develop an acute awareness of the attitude of others and create an attitude of friendliness and help. He must avoid hurting or damaging a person's self-respect or dignity. He must recognize that he occupies a touchy position and "bend over backwards trying to smooth ruffled feathers."<sup>41</sup> Consideration of the auditee's feelings goes a long way towards enlisting his cooperation, and it costs nothing as far as effectiveness is concerned.

Practically every textbook on internal auditing and many issues of The Internal Auditor contain at least one reference to the value of friendly human relations on the part of the internal auditor. However, research of available Navy Department instructions and publications pertaining to internal auditing, failed to disclose one direct reference to the value of good human relation practices.

#### Proper Perspective.

If internal auditors are to provide a service to management they must understand the management approach. An audit manual of a large telephone company states that their internal auditors do not review company operations for the

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<sup>41</sup>James J. Friedman, "Effective Supervision of an Internal Audit Department," The Internal Auditor, Volume 20, No. 4 (Winter, 1963), pp. 34-38.



purpose of finding errors in those operations, but to identify weaknesses so that corrective action can be taken to strengthen operations. If an internal auditor approaches his job as only that of determining compliance with controls, with little or no emphasis on the appraisal of controls, his report will recite errors and omissions, but will not get at the "root of the problem." The real problem could be with the control itself - "the errors and omissions are a symptom and not a disease."<sup>42</sup> We are fortunate in that there is a growing group of internal auditors which believes that if an auditor doesn't devote most of his effort to finding solutions to the problems he discovers, he isn't measuring up to the modern concept of internal auditing.<sup>43</sup> This "forward look" forms a vital part of the proper perspective for every internal auditor.

Another vital part of the proper perspective for internal auditing was stated by the auditor of the Foote Mineral Company. He had to sell top management on the value of internal auditing - an "uphill struggle" which has now

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<sup>42</sup> Bradford Cadmus, "Selling Modern Internal Auditing," The Internal Auditor, Volume 18, No. 4, (Winter, 1961), p. 59.

<sup>43</sup> Brooks McCormick, "What Happened to the Man in the Derby Hat," The Internal Auditor, Volume 20, No. 3, (Fall, 1963), pp. 42-43.



been won. He stated:<sup>44</sup>

Two questions guided our steps. First, how important is a finding with relation to the whole; and second, who can do something about it?

#### Summary.

The chief cause for the lack of acceptance of internal auditing in the Navy is probably the fact that internal auditing was forced on the United States Navy by the Congress and the Department of Defense. If internal auditing in the Navy would have had to earn its place on the management team, as it had to do in industry, the story may have been quite different. As it is, many people in the Navy, especially operating department heads, must be "sold" on the value of internal auditing. This "selling" job falls directly on the internal auditor. It requires increased emphasis on good human relations practices, the management approach, and the proper perspective. The Deputy Secretary of Defense may have had these points in mind when he wrote:<sup>45</sup>

The audit organization in each military department and the audit staff in the Office of the Secretary of Defense expect to contribute their parts to the attainment of more responsible and increasingly effective management. Their efforts are to be

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<sup>44</sup>Archie McGhee, "Internal Auditing at Foote Mineral Company," *The Internal Auditor*, Volume 18, No. 4, (Winter, 1961), p. 83.

<sup>45</sup>Deputy Secretary of Defense," Memorandum for the Secretary of the Army, the Secretary of the Navy, the Secretary of the Air Force," of 8 August 1961. (Washington: Department of Defense, 1961).



directed toward the professional approach to management problems, and the audit organizations should be designed and operated as a force to contribute toward getting the job done. To accomplish their purpose fully, they must be more than a deterrent factor; they must be constructive in their contributions and they must be accepted as an integral part of a successful team.



## CHAPTER V

### CONCLUSION

The Review of Management of the Department of the Navy (The Dillon Report) released in 1962 referred to internal auditing as one of the most controversial functions in the Department of the Navy. Although producing substantial savings, over and above the cost of performing the function, the lack of acceptance of internal audit prevents the realization of the full potential of the program. The lack of acceptance of internal audit in the United States Navy appears to be due not only to the factors listed in the Dillon Report, but also to the factors listed in the following paragraphs.

Formal internal audit reports include the reporting of discrepancies, or noncompliance with directives, even though the audited activity has taken corrective action prior to the departure of the auditors. This type of reporting does not appear to be "constructive" to the activity audited. Contrariwise, it has the appearance of building up the auditor's ego at the expense of the person audited. The possibility of any constructive benefits generated by pointing out the discrepancy would appear to be more than off set by the negative aspects generated by including the item in the formal audit report.

Formal internal audit reports include findings and



recommendations which do not appear to merit the attention of the management bureau of higher authority. For example, one of the 31 formal audit reports reviewed contained the recommendation "NAF PREPARE ADDRESSOGRAPH PLATES FROM PERSONNEL ACTION FORMS ONLY, AS REQUIRED BY NAVCOMPT MANUAL, PAR. 033202-1." It would appear that more good-will would have been generated and the purpose of the audit served more effectively if the recommendation had been included in the informal audit report instead of the formal one. Increased emphasis should be given to the principle of reporting the findings and recommendations to the lowest responsible level of management which can resolve the problem.

The preponderance of recommendations, in the 31 formal audit reports reviewed, were of the type that required the audited activity to comply with existing instructions or regulations. It is suggested that the reporting of the finding, in such cases, should be sufficient to prompt management to take corrective action. It is also suggested that the internal auditor might be of more service to management if he could determine why the existing instructions and/or procedures were not being followed, and make recommendations accordingly.

The United States Navy has, in the past, approached internal auditing along functional lines rather than along the lines suggested by the management audit. Much can be



said in favor of both types of audit approaches. The functional approach seems to be used because it appears to be the most logical in determining whether instructions and regulations are being followed. However, in following this approach, the auditors seldom challenge an existing policy or procedure unless the auditee convinces the auditor that the policy or procedure should be changed. It is suggested that the management audit approach discussed in Chapter III also be utilized by the United States Navy. The management audit approach could quite possibly uncover new avenues to increased efficiency and economy. In adopting this approach however, only qualified personnel should be used. It is recommended that management engineers and/or systems analysts be included as members of the internal audit team.

It is believed that too little emphasis has been given to human relations as it pertains to internal auditing in the United States Navy. The fact that internal auditing has had the support of top management from the beginning may have something to do with the lack of attention to this vital aspect of the audit function. Increased attention to this area will help internal auditing earn the acceptance which now appears to be lacking.

The educational effort recommended by the Dillon report is believed to be directed at the wrong people. It is the



auditor who must "sell" internal audit to the operating department heads. The success of internal audit depends on how well the auditor performs his "selling" function. It is therefore recommended that the educational effort be directed towards the auditor rather than top management in the Navy Department.

In addition to the items listed above, proper perspective on the part of the auditor is required if internal auditing is to be accepted. Internal auditing must earn the respect of all levels of management before its full potential will be realized.



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## APPENDIX I

### Excerpt from Title IV, Public Law 216, 81st Congress

Sect. 401. (a) There is hereby established in the Department of Defense the Comptroller of the Department of Defense . . . (b) The Comptroller . . . Subject to the authority, direction, and control of the Secretary of Defense . . . shall -

- (1) supervise and direct the preparation of the budget estimates of the Department of Defense; and
- (2) establish, and supervise the execution of
  - (A) principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to -
    - (i) the preparation and execution of the budgets,
    - (ii) fiscal, cost, operating, and capital property accounting,
    - (iii) progress and statistical reporting,
    - (iv) internal audit, and . . .

Sect. 402. (a) The Secretary of each military department, subject to authority, direction and control of the Secretary of Defense, shall cause budgeting, accounting, progress and statistical reporting, internal audit and administrative organization structure and managerial procedures relating thereto in the department of which he is the head to be organized and conducted in a manner consistent with the operations of the Office of the Comptroller of the Department of Defense.

(b) There is hereby established in each of the three military departments a Comptroller of the Army, a Comptroller of the Navy, or a Comptroller of the Air Force, as appropriate in the Department concerned. There shall, in each military department, also be a Deputy Comptroller. Subject to the authority of the respective departmental Secretaries, the comptrollers of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments and for the administrative organization structure and managerial procedures relating thereto . . .



## APPENDIX II

DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
Washington

SECNAV 7500.5  
NAVCOMPT:NCT

16 September 1961

### SECNAV INSTRUCTION 7500.5

From: Secretary of the Navy  
To: Distribution List

Subj: Audit as a factor in management

Encl: (1) Copy of Deputy SECDEF Memo to Service Secretaries  
of 20 July 1961

1. Purpose. To forward enclosure (1) for guidance and to emphasize the importance of audit as a factor in management in the Department of the Navy.

#### 2. Background

a. Enclosure (1) discusses the increasing importance of the audit function in the improvement of management and command policies and procedures. It is furnished for study by all who may be concerned with audit but primarily for those levels of management whose policies and procedures are subject to audit.

b. In view of the growing magnitude of defense activities and attendant problems of administration and control of funds, both contract and internal audit will occupy increasingly important roles in serving management at all levels in assuring that our resources are used to best advantage.

c. Department of Defense audit policies prescribe a broad management approach to internal auditing. Areas of potential management improvement and instances of noncompliance with policies or accepted and directed practices in any area of operations (except tactical) are pointed out in internal audit reports to management.

3. Action. I strongly endorse the views and philosophy set



OFFICE OF THE SECRETARY

SECNAVINST 7500.5  
16 September 1961

forth in the enclosure and feel that no responsible member of management can do otherwise. Appropriate action will be taken at all management levels to ensure attainment of the objectives set forth in enclosure (1). I am sure that I can expect your full support.

/s/John B. Connally

JOHN B. CONNALLY

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E14

ASTSECDEF (COMPT-Directorate for Audit Policy)

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### APPENDIX III

#### EXAMPLES OF RECOMMENDATIONS REPORTED IN FORMAL INTERNAL AUDIT REPORTS WHICH DO NOT APPEAR TO MERIT THE ATTENTION OF HIGHER AUTHORITY

Periodic Internal Audit Report No. A36-63F of 5 July 1963:

"Recommendation No. 12: NAS CONSIDER THE ASSIGNMENT OF A RELIEF MASTER-AT-ARMS TO PROVIDE CONTINUITY IN CONTROL AND COVERAGE FOR SEVEN DAYS A WEEK."

"Recommendation No. 13: NAS ENSURE THAT THE DAILY AND MONTHLY PERSONNEL RECAPITULATION AND MESS RATION CREDITS (SANDA FORM 27) ARE PREPARED ACCURATELY, IN COMPLIANCE WITH BUSANDA MANUAL, PAR. 41056."

Continuous Internal Audit Report No. C18(63)3F of 19 July 1963:

"Recommendation No. 1: NAVSHPYD, AS INTENDED BY NAVCOMPT MANUAL, PAR. 03400-5, ITEM 4, CITE END-USE EXPENDITURE ACCOUNTING DATA ON REQUISITIONS PASSED TO OTHER ACTIVITIES FOR SUPPLY ACTION FOR ALLOWANCE LIST ITEMS."

Periodic Audit Report No. A204-631-F of 8 August 1963:

"Recommendation No. 3: COMSYSTO, IF NSSO APPROVES CURRENT TIPPING PRACTICES, REVISE MEMORANDUM OF 25 SEPTEMBER 1961 TO REFLECT ACTUAL DUTIES OF BAGGERS."

Internal Audit Report No. C41(64)1F of October 1963:

"Recommendation No. 5: NAS, WHEN APPLICABLE, WAIVE CHARGES TO THE ARMY, AIR FORCE, OR OTHER DEPARTMENT OF



DEFENSE AGENCIES, AS REQUIRED BY BUSANDA MANUAL, PAR. 25314-1a."

Continuous Internal Audit Report No. CIAA29(61)-4F:

"Recommendation No. 7: MCAS CANCEL ALL BLANKET PURCHASE ORDERS THAT HAVE LITTLE OR NO ACTIVITY AND, IN ACCORDANCE WITH BUSANDA MANUAL, PAR. 63038-1b, NEGOTIATE BLANKET PURCHASE AGREEMENTS ONLY WITH THOSE VENDORS TO WHOM REPETITIVE PURCHASE ACTIONS ARE ISSUED."

Periodic Audit Report No. A66-61-F of 18 August 1961:

"Recommendation No. 18: NAF PREPARE ADDRESSOGRAPH PLATES FROM PERSONNEL ACTION FORMS ONLY, AS REQUIRED BY NAVCOMPT MANUAL, PAR. 033202-1."

Periodic Audit Report No. A9-61 of 29 August 1961:

"Recommendation No. 28: NAS FACILITATE DELIVERY OF MILITARY PAY CHECKS BY REQUIRING EACH DEPARTMENT TO DESIGNATE A MEMBER TO PICK UP CHECKS AT THE DISBURSING OFFICE AND TO DELIVER THEM TO THE PAYEES ON THE JOB, AS AUTHORIZED BY NAVCOMPT MANUAL, PAR. 044632-3b(2)."



## APPENDIX IV

THE DEPUTY SECRETARY OF DEFENSE  
WASHINGTON 25, D. C.

8 Aug 1961

MEMORANDUM FOR THE SECRETARY OF THE ARMY  
THE SECRETARY OF THE NAVY  
THE SECRETARY OF THE AIR FORCE

SUBJECT: The Audit Function as a Factor in Department Management

By memorandum of April 28, 1961, subject: "General Accounting Office Reports," the Secretary of Defense directed the military departments to take necessary action to insure that internal management, contract auditing, and internal auditing procedures be tightened up. In the same memorandum, he directed that the Assistant Secretary of Defense (Comptroller) set up a staff to give greater effectiveness to the audit function within the Department of Defense. Recently the Secretary has again indicated his continuing interest in careful review of the audit function throughout the military services and in the Office of the Secretary of Defense. Also, he has again stressed the importance of our giving careful attention to the findings contained in our own audit reports and those of the General Accounting Office and the design of appropriate follow-up procedures for all audit findings. He has directed the Assistant Secretary of Defense (Comptroller) to take steps to accomplish each of these objectives.

General Accounting Office and Department of Defense audit reports emphasize the need for better management discipline in the conduct of defense activities. In referring to a recent General Accounting Office report on the uses of funds for unauthorized purposes, Chairman Mahon of the House Appropriations Committee said: "(it)...tends to confirm the idea of so many Americans that the military cannot be trusted with the judicious expenditure of funds..." The public image of defense activities is frequently conditioned by criticism of this kind. Consequences of such attitudes may be reflected in the reduction in procurement funds and in other reductions and restrictions proposed in appropriation acts.



There should be no question in the Department of Defense about the firm enforcement of management and command policies and procedures. There should be no question as to whether adequate discipline and controls have been established to assure effective compliance with procedural and operational requirements. Reports continue, however, to indicate a lack of adequate management discipline.

The audit organization in each military department and the audit staff in the Office of the Secretary of Defense expect to contribute their parts to the attainment of more responsible and increasingly effective management. Their efforts are to be directed toward the professional approach to management problems, and the audit organizations should be designed and operated as a force to contribute toward getting the job done. To accomplish their purpose fully, they must be more than a deterrent factor; they must be constructive in their contributions and they must be accepted as an integral part of a successful team.

It is necessary for each military department to examine its managerial and command philosophies and practices, together with the disciplines, controls and other measures used to administer them. In the Office of the Secretary of Defense, we will join in our own self-evaluation to the end that a more effective management of our resources and programs can be assured. Some of the specific actions which should be taken to improve our operations are:

- a. Strengthen and broaden internal auditing and other managerial controls.
- b. Extend the use of contract audit services within the procurement function.
- c. Emphasize the benefits of self-evaluation and self-generated corrective action and discourage defensive action.
- d. Take prompt corrective measures in cases of failure to comply with established requirements or accepted principles of management.
- e. Take prompt disciplinary action in regard to those seeking to avoid responsibility through dishonest or improper responses to criticisms and recommendations.

Encouragement, assistance, and follow-up will be provided the audit organizations of the military departments by the audit staff of the Assistant Secretary of Defense



(Comptroller). It may be necessary to supplement this staff to some extent. This will depend upon progress achieved during the early phases of the improvement program.

The Secretary has directed that the whole audit program of the military departments, the Office of the Secretary of Defense, and the General Accounting Office be studied and, what is more important, fully coordinated. Also, to the extent that it is material, the audit activities of defense contractors will be appraised and effective contractor audit will be integrated into the total audit program. We must have sensitive means of learning of our problems and of instituting corrective measures promptly. Mr. Paul Green, the Deputy Assistant Secretary (Accounting), will coordinate this program. He will review reports from the audit organizations of the Army, Navy and Air Force, and will make certain that the Services have prepared adequate procedures for following through corrective recommendations to their ultimate applications. We expect the audit function to be a guide to progress and we look forward to it providing a foundation on which better record keeping, management reporting, and efficient operations can be achieved. To the extent made necessary by the circumstances of the case, the audit staff of the Office of the Secretary of Defense will either perform, or coordinate and direct the performance of audits in selected areas. Proper procedures will be designed and placed in operation to assure follow-up on audit report recommendations and to be certain that corrective actions are taken when they seem to be indicated.

We hope that you will give your full support to this program. With adequate understanding and given suitable strength, it can contribute much to firming up all the operations in the defense effort.

ROSWELL L. GILPATRIC

Signature Authenticated By:

/s/ Henry E. Lofdahl  
HENRY E. LOFDAHL  
Chief, Correspondence  
Control Section







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Internal auditing in the United States

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